



- 241 -

---

I S   S O C I A L   S P E N D I N G   P R O D U C T I V E

---

R. Marvyn Novick,  
Senior Program Director,  
Social Planning Council  
of Metropolitan Toronto.





In November 1975 a policy era ended in Ontario and Canada. The special Program Review commissioned by the Government of Ontario published its findings. The publication introduced a set of themes which have come to dominate Canadian public policy discussions during the last three years. While the themes are not uniquely Canadian, and are currently the subject of intense debate in almost all O.E.C.D. countries, the manner in which the policy climate has evolved in Canada deserves some special scrutiny.

The Special Program Review was designed to advise the Treasurer of Ontario on "ways and means of restraining the costs of Government through examining issues such as the continued usefulness of programs, alternative lower cost means of accomplishing objectives, and the problem of increased public demand for services in an inflationary period."<sup>1</sup> The report accomplished few of these objectives. It never examined the usefulness of public programs, nor did the review give

evidence that it even knew how to approach such a task.

Lower cost came to mean reducing the expenditures of Ontario. The review identified a range of programs to be transferred to the federal or municipal levels, or alternatively to be financed through increased user fees. In the latter instance, lower costs were to be achieved through excluding, or limiting access to, marginal income groups through the use of the price system.

There were few recommendations which addressed issues such as program design, the selective integration of provincial functions, or preventive measures. Nor did the review examine the revenue side of the balance sheet, and in particular the inefficiencies of tax expenditure policies.

The review was designed as, and succeeding in becoming, an ideological exercise which introduced the

---

<sup>1</sup> Letter of Transmittal, Special Program Review, November 1975.

concept of public sector restraint to the political life of Ontario. The thinking developed as follows. Government was the biggest and most influential factor in the daily lives of Canadians. World-wide inflation, along with domestic unemployment, were threatening the Canadian economy. Increased government spending at current levels "fuels the very inflation governments are fighting". The most urgent task was not merely to contain current spending, but "to face up to the difficult job of cutting it back".

The source of government threat lay in inordinately large provincial deficits, which threatened to grow even larger in succeeding years. Governments would seek their cash requirements in capital markets, thereby push up interest rates, and draw needed capital away from the private sector.

Seventy percent or more of gross provincial spending is directed to the social development field. Included is health, education, community and social services, colleges and universities. Other forms

of social spending outside the social development field include housing, corrections, culture and recreation, and portions of the labour and the justice ministries. Thus a call for restraint and cutbacks in provincial expenditures was in effect a call for reduced social spending.

This was no easy task to accomplish. The establishment of Medicare - Ontario's network of elementary, secondary schools, colleges and universities - the province's child welfare programs, and services to the elderly were sources of immense pride to the people of Ontario, and were strongly supported across all parts of the political spectrum. What followed subsequent to the review was a systematic campaign by political, business, and financial leaders to justify cutbacks in social spending.

Throughout 1976 and 1977 there was hardly a week which passed which did not include a number of reported speeches, professional opinion features, columns or editorials, which proclaimed social spending



as the source of Canada's economic instability. The campaign stressed a number of major themes which through sheer repetition came to be unseen as undisputed fact. It was claimed that levels of public spending in Canada were exceptionally high in relation to other Western nations with whom we had to compete. Social welfare programs in Canada were among the most generous of Western nations. High levels of social spending were the source of Britain's economic malaise. Public spending had come to appropriate 40% of Canada's gross domestic product, thereby eliminating the possibilities of private sector initiative. The public sector, without tests of market accountability, was by definition inherently less efficient than the private sector. The theme of government waste became paramount, reinforced symbolically by difficulties with the postal service, and reinforced in substance by annual reports of the auditor-general, citing the marginal waste inherent in any bureaucratic enterprise. The bottom line in the analysis was centred on taxation levels, with claims that the public sector in Canada was spending beyond its means. Taxes were too high. Taxes were confiscation of productive private initiative. Taxes were contributing to

the generation of waste.

On a more theoretical level, all public sector activities and by implication all forms of social spending, were defined as "non-productive". These activities did not contribute to the formation of "real wealth", but represented the luxury goods of society in which wealth was created by the private sector. Thus schools, hospitals, universities, police and fire services were inherently non-productive, but nevertheless desirable frills. Family budgeting imagery was invoked. When times are difficult family luxuries are curtailed, and scarce resources are devoted to the necessities of life. When difficulties would be overcome eventually, the important "extras" of life would once more be possible. Thus public spending had to be cutback, and await new wealth formation through private initiative.

The most productive role for the state in the coming years would be to limit its restraint of private initiative. Thus there were calls for reduced spending, reduced taxation, reduced deficits,

reduced regulations, reduced public sector employment, reduced pensions and wage increases to public servants. A more favourable environment for private capital formation would make Canada competitive again, create new jobs, overcome energy shortages, and create new sources of wealth for public purposes. While private initiative was central to this strategy, public sector encouragement in the form of tax concessions was not to be ruled out. Thus in the seventies, we have seen a host of proposals and measures - temporary income and sales tax cuts, employment tax credits, proposed mortgage interest exemptions, write-offs to spur domestic capital formation (i.e. RRSP, RHOSP), major concessions (1972-74) to secondary industry, increased exemptions for the proceeds from Canadian investment, calls for abolition of capital gains, direct inducement payments to non-Canadian enterprises to locate in Canada (i.e. Ford), deferment schedules for the payment of taxes, and so forth. While it is not at present possible to identify the cost of these tax concessions, they represent sizeable levels of public spending. Tax expenditures represent foregone public revenue, and lead to large public deficits.

The public policy environment in Canada has been transformed. Governments at all three levels have absorbed the new assumptions and adopted appropriate fiscal and policy measures. Cutbacks in public sector spending are the order of the day. Nevertheless, inflation continues unabated. Widespread unemployment persists. There is little if any optimism for the immediate future. The most pessimistic of all scenarios is the demographic solution. In this view there is little that can be done to mitigate current employment hardship. It is primarily a function of a demographic bulge, unique to Canada, which has given us the largest growth of labour force population of any OECD country in the last decade. This is largely the result of the post-war baby boom, the growing participation rates of women in the labour force, and high immigration levels. There is a limit to the number of jobs that the economy can create even under the best of circumstances. Canada's employment creation rate is one of the best in OECD countries. For those periodically or permanently excluded it is a matter of waiting it out during the next 5-8 years, into the mid-eighties, when the bulge is finally



absorbed. At that time we might even face labour shortages because of an aging population.

For members of the social policy community the last three years have been a period of shock and disarray. The post war period was one of unprecedented expansion of social development programs, primarily financed through public investments and subsidies. There was rarely any need to justify the overall value of health, education, social welfare, and income support programs. They were assumed to be useful if legitimate needs could be demonstrated. Social planning was directed to needs identification, and the allocation of public and voluntary surpluses. Was a new sheltered workshop program for the retarded of higher priority than a new family life education service? On what schedule would hospitalization and physician benefits be extended? Over what period of time could the regional distribution of new community colleges be completed?

It was a period of activism, whether within institutions or in the community. Most of the important assumptions were already in place. There was little if any critical thinking required beyond maximizing

distributional objectives.

The new policy environment has ended this insularity. The climate of restraint has intensified the justifications required of social development work. With scarce resources the givens of public policy, social development functions are now assessed relative to mainstream economic functions. Even if the initial assessments of social development functions are unfavourable, through claims that they are "non-productive", the functions have been joined at the center of public policy debate. This is to be welcomed. Economic and social policy issues are now part of an integrated framework of public debate. This presents the social policy community with new opportunities to address substantive preventive areas such as employment, urban planning, tax expenditure reform - not readily possible when social development activity was assigned a residual role in the policy mainstream, quietly appropriating its share of growth surpluses for human services and programs.

As both policy areas are joined, opportunities for comment and assessment will flow in both directions.

Economists, business leaders, financial analysts, management specialists have felt quite comfortable assessing the role, value, and effectiveness of social development activity. The economic mainstream must in turn be prepared to have its own planning and policy approaches publicly assessed by social planners. This includes examining the theoretical consistency of economic planning assumptions, evaluating the methodology and evidence which underlie analysis and review, and examining the level of social understanding when prescriptions and projections are offered.

In an atmosphere of restraint, it is incumbent upon social planners to identify the most productive allocation strategies to maximize the mutual attainment of economic and social development objectives.

This means identifying economic policies which minimize human hardship, and the spill-over of social problems requiring expensive compensatory services and programs. Unemployment or under-employment of family heads with dependent children has been one consistent area of spill-over. The costs to the public in health,

protection, remedial and custodial programs are enormous. Similarly, land use and housing patterns which isolate dependent populations result in expensive social and urban service spill-overs for home and community support. It will become necessary to review tax expenditure policies where they subsidize the affluent, and erode government's ability to meet the legitimate income and social needs of those most vulnerable to inflation and restraint.

Within the social development field there will be the need to critically assess the roles of agencies and professionals in meeting service objectives at manageable and effective cost levels. Reproducing the capital and bureaucratic intensive services of the past is neither desirable nor possible. Greater emphasis is needed on developmental services which promote self-care, mutual support, and social integration.

The ability to pursue an integrated framework of economic and social development is initially dependent on two conditions being met:



- (a) there is some legitimacy restored to the leadership role of government in formulating and implementing public policy objectives in the best interests of the entire community
- (b) that there be balanced patterns of economic and social spending, not based on unsubstantiated ideology and dogma, but on clear and effective assessments of what has worked, and what might be expected to work

For these reasons it is important to assess the validity of contentions that social spending is at the source of Canada's economic difficulties, is non-productive, and by implication, that the public sector should play a reduced role in the economic and social life of Canada.

This paper briefly explores some of the claims cited with respect to social spending. The review is of necessity only a preliminary outline of what should be an emerging area of historical, theoretical, and policy scholarship in the social development field.

It is useful at this stage to examine the period preceeding 1975 when it is claimed that public spending in Canada reached runaway proportions. The accuracy of this contention can be examined comparatively in reviewing public spending levels in Canada relative to those of other OECD nations. Table 1 (a) situates Canada's public spending patterns in relation to those of 13 other OECD countries in the period of 1973-75. Public spending is broken down into four principal components:

#### 1.0 Direct consumption by government.

This is where government hires workers and operates programs directly. By its organization of output government can in effect compete with the private sector. But contrary to repeated claims, government enterprise organizes 20% of Canada's output. This hardly justifies the claim that government has reduced the scope for private sector initiative.

Table 1 (a)

CROSS-NATIONAL SPENDING PATTERNS, AVERAGE 1973-75

COUNTRY	Percentage Public Spending of Gross Domes- tic Product	Distribution of Public Spending:			Public Debt Interest and Other
		Consumption	Investments	Transfers	
Netherlands	49.8*	16.9	3.7	24.9*	4.3*
Sweden	47.4*	23.2*	4.5*	16.8*	2.9
Norway	45.6*	16.5	4.6*	21.9*	2.6
United Kingdom	43.3*	19.6	4.9*	13.7*	5.1*
Denmark	42.2*	22.0*	4.3*	14.0*	1.9
Belgium	41.0*	15.6	3.2	18.0*	4.2
Italy	40.9*	13.7	3.1	19.8*	4.3*
Germany	40.5*	19.1	3.7	15.6*	2.1
CANADA	39.4	19.8	3.8	11.6	4.2
Austria	38.8	16.1	6.2*	15.3*	1.2
France	38.8	13.6	3.3	20.0*	1.9
United States	33.2	18.1	2.2	10.2	2.7
Australia	29.8	14.5	4.2*	8.0	3.1
Japan	22.3	9.4	5.5*	6.5	0.9

\* - Countries in excess of Canadian percentage

Source: OECD "Towards Full Employment and Price Stability" June 1977, p. 309, 310.

Table 1 (b)

CROSS-NATIONAL TAXATION PATTERNS, AVERAGE 1973-75

COUNTRY	Percentage: Taxation of Gross Domestic Product	Distribution of Taxation:			
		Personal Income Taxes	Social Security Taxes	General Con- sumption Taxes & Excise	Corporate Taxation & Other
Norway	47.4*	14.3*	13.6*	18.0*	1.5
Netherlands	44.8*	12.6*	17.6*	11.5	3.1
Denmark	42.7*	24.7*	.9	15.8*	1.3
Sweden	42.6*	19.0*	8.4*	13.8	1.3
Austria	39.1*	11.5*	8.9*	16.9*	1.7
Belgium	38.0*	11.6*	11.8*	11.5	3.1
Germany	35.1*	10.4	11.6*	12.6	1.4
France	35.1*	4.9	13.6*	14.4*	2.3
United Kingdom	34.7*	12.8*	6.1*	13.4	2.4
CANADA	33.7	11.4	3.4	14.1	4.8
Italy	29.9	5.6	12.7*	10.4	1.2
United States	29.4	10.0	7.0*	8.9	3.5
Australia	26.9	11.7*	.0	11.3	3.9
Japan	20.6	5.2	4.1*	6.6	4.7

## 2.0 Investments

This is where government increases public capital stock through infrastructure and facility development (i.e. schools, libraries, transportation terminals, office buildings). The development of capital stock is invariably carried out through contracting private sector resources. If capital investment is low, the consequence is not fewer civil servants employed, but private sector unemployment (i.e. - high levels of unemployment in the construction trades of Metro).

## 3.0 Transfers

Here government returns a part of what it receives in revenue as payments to individuals and groups. It redistributes demand and capacity in the private sector, but does not constrain the aggregate scope for private sector initiative. In a progressive system of transfers those with higher abilities to pay will contribute more than they receive back in direct payments. Inversely, those with lower abilities to pay will receive back payments consistent with their status or

need. This principle in Canada is also extended to inter-provincial transfers. It is the hallmark of a civilized society that redistribution will promote the social integration of the general community by eliminating the disparities which exclude persons or regions from participating in the life of the society. Resistance to public spending can be, and often is, a resistance to redistribution. This should be remembered, because people generally hesitate to state publicly their reticence to share with others.

The citing or waste and alleged widespread abuse of social programs (single mothers, unemployed) introduces a sense of public legitimation in resisting redistribution. This is not to indicate, or course, that legitimate differences may exist over the scale and intensity of redistribution. Nor does it prevent certain groups from supporting redistributive programs as they recoup their contributions through generous tax expenditure concessions.



#### 4.0 Public debt interest and other

This represents public repayment obligations for incurring capital and/or operating deficits in previous years.

A review of Table 1 (a) indicates that Canada was 9th out of 14 countries in aggregate public spending relative to gross domestic product, exceeded not only by the British, but by West Germany as well. Canada was 3rd in direct consumption by government (exceeded by the economically successful Swedes and Danes), and fourth in relative debt levels - which suggests either that overall expenditures were too high or that revenue was too low. That we are among the most generous of nations in our income transfer programs is clearly not borne out by the data. Canada ranks 11th in the proportion of its gross domestic product transferred to persons and groups, exceeding only the Americans, Australians and Japanese.

Table 1 (b) identifies taxation patterns of the same countries. In overall taxation Canada was 10th (compared to 9th in expenditures), suggesting possible

elements of a revenue shortfall. Direct personal income taxes represent one-third of all taxation, and ranks 9th overall. Social security taxes are very low (12th), general consumption taxes relatively high (5th), and corporate taxation along with other minor taxes highest of all.

A number of conclusions may be tentatively drawn. Canadian public spending patterns were not usually high. The Germans, Danes, and Swedes were spending at higher levels with evidence of greater economic strength and stability than Canada. The size of the British state sector, and levels of transfers, were commensurate with those of her European partners. Some other explanations have to be found for the British malaise. Government was not encroaching on the opportunities for private sector initiative in Canada, relative to the vast majority of OECD countries. Personal and social security taxes were relatively lower in Canada; consumption and corporation taxes were higher.

The picture of spending patterns in Canada prior to 1975 is not complete however unless one also



looks at private levels of debt formation. Table 2 indicates the extent to which Canadians embarked (or were induced to embark on) high levels of market consumption. From 1967 - 71 average income increases were only slightly ahead of consumer debt increases. From 1971 onwards Canadians went heavily into debt. From 1971-1974 average incomes increased by 38.1% with consumer debt levels growing by 41.4%. From 1974 to 1976 debt increase levels moderated slightly but remained above average income increases. Over 65% of all new consumer debt during this period was incurred to chartered banks, in some measure related to the introduction of consumer charge cards. Consumer debt figures do not include mortgage liabilities. In an urban market such as Metro, with escalating house prices at ever increasing mortgage rates, aggregate levels of private debt relative to income growth would be quite high.

TABLE 2

PRIVATE CONSUMER DEBT PATTERNS, CANADA, 1967-71, 1971-74, 1974-76

Year	Income Earners (000_	Average Income	% Increase Average Income	Consumer Debt per Income Earner	% Increase Consumer Debt
1967	9,730	\$4,222	-	886	-
1971	11,477	5,371	+ 27.2%	1,104	+ 24.6%
1974	13,151	7,416	+ 38.1%	1,561	+ 41.4%
1976	14,114	9,265	+ 24.9%	1,957	+ 25.4%

Sources: Statistics Canada  
Consumer Credit  
Income Distributions By Size 1976, p. 65

Note: Consumer debt does not include mortgage debt.

If there was public overspending during this period, the origins can be traced to high levels of consumer spending, and corresponding debt formation. Some economic analysts have suggested that real productivity gains in the Canadian and U.S. economies began to decline in the mid-sixties. Consumer spending from the mid sixties through the early seventies was largely primed through increases in the money supply, facilitated through reforms to the Bank Act which extended the lending opportunities for chartered banks. What was experienced as significant growth levels in consumer purchasing power and corresponding growth in the gross domestic product, was somewhat artificial, unrelated to gains in real productivity. Governments primed overconsumption for market goods and services, at the same time that new public costs (i.e. Medicare in Canada, Vietnam War in the U.S.) were incurred, without corresponding adjustments to taxation levels. Rather than force a choice between private goods and public costs, the decision was to have both, financed through inflationary priming and increased private debt formation.

This pattern had unfortunate spill-over effects.

In the early seventies, the inflation cycle began to erode purchasing power. In an administered market, prices for basic commodities (i.e. - housing, energy, communications) remained fixed. The income squeeze created corresponding pressures on the structure of public revenue. Once more, the hard choices were avoided, as governments (Ottawa, Ontario) increased public deficits by reducing public revenue. During the early seventies significant tax concessions were introduced to the Liberal government in Ottawa, to both corporations and individuals, which cumulatively transferred billions of dollars annually to the market sector (Editor's note: In 1979 the total of federal tax expenditures has been estimated to be in excess of \$30 billion a year). In comparison to tax expenditure levels, increases in family allowances and liberalized provisions to the unemployment insurance program were marginal in relation to foregone public revenue. Concessions in this period included - indexation of the income tax, exemptions on private retirement and home-ownership savings, tax write-offs to secondary industries, sales tax cuts, regional economic expansion grants, etc., etc. In a

period of emerging economic instability, rather than introduce sound economic planning and place the choices before Canadians, Ottawa chose to indiscriminately prime the private sector through what were essentially tax welfare measures - hand-outs to private industry, subsidies through exemptions to middle and upper income groups.

The use of tax welfare as a basic strategy for economic planning has turned out to be costly and inefficient. Concessions are offered across the board in the hope that somehow the private sector will contribute to public objectives.

The inefficient leakage of tax benefits, and the corresponding inequity which arises, is socially destructive. Political parties who refuse to develop a framework (and the instruments required) for public economic planning, and instead resort to costly tax welfare measures, must bear the full burden of responsibility for the inordinate public deficits which have emerged in the seventies. Ontario is a prime example of this approach. The full costs of Medicare came to be experienced in the early seventies. Worthy tax credits were introduced for property tax and to the elderly. Even as there was lost revenue through federal tax

concessions, Ontario failed to adjust income taxation levels. Instead, it financed increasing public deficits by drawing on Canada Pension, Municipal Employee, and Teacher Pension reserves. In part, the spending crisis in Ontario arose when it became evident that Ontario sources of deficit financing would dry up in the early eighties.

Once more, this pattern in Ontario and Canada could not continue indefinitely. The choices has to finally be made, and they were. In Ottawa, wage controls were introduced which placed the full burden of restraint on salaried earners. An alternative approach might have been to control incomes through increases in personal and corporate taxation. This choice would have spread the burden of restraint more equally, limited inflationary demand, and protected the provision of public services and programs. It would have meant some reduced demand in the market sector, along with accompanying dislocations. This should be expected in light of the risk theory by which the market sector justifies the private appropriation of profits. Instead, the market sector demanded and



received protection, citing public expenditures as the source of inflation and instability.

In Ontario, (where provincial expenditures had declined marginally from 1971 - 74 in relation to the gross domestic product) the campaign led to reduced child welfare programs, the curtailment of publicly assisted family housing developments, limited expansion of special education services, increased poverty for single mothers raising dependent children, minimal support services for the homebound elderly, limited subsidies for public transit programs, progression erosion of the Medicare program, inordinate pressures on Ontario's universities and colleges, and cutbacks in the general financing of municipal governments. This has been accompanied by increased provincial reliance on regressive revenue sources such as the property tax, O.H.I.P., user fees, and consumption taxes to pay for public services.

The net effect of protecting the market sector through an elaborate tax welfare system, and cutting back on essential public services, has been to further

redistribute income and social benefits from the bottom to the top. The architects of the campaign against social spending, however, have refrained from citing the obvious redistributive effects of their strategy. Instead, they have framed their appeals in "public interest" language, citing established civic virtues such as efficiency, the elimination of waste, and the control of abuse. Nor has it been necessary for them to introduce empirical evidence to substantiate their claims. The technique of case illustration has been employed quite effectively, without any comparative framework provided by which to judge whether the cases were atypical, indigenous to government, or reflective of large corporate structures, private or public. One might argue that Canadians have an equivalent interest in rooting out waste, inefficiency, and abuse in private monopolies as well. In an administered market, corporate waste, inefficiency, and abuse are reflected in the price structure of goods and services, and in a decline of international competitiveness, upon which the employment prospects for Canadians depend. Unfortunately, there are no equivalent publicly reported annual audits conducted on private monopolies, so that Canadians

might have a basis for comparing relative efficiency, waste, and abuse levels with public sector activity. Until a comparative framework of evidence exists (which, for example, would compare publicly administered with privately administered health insurance programs), contentions of inherent waste in public spending remain nothing more than unsubstantiated dogma, elevated to the level of fact through the formidable power of public repetition, with limited access to dissenting views.

In the absence of empirical evidence, the central arguments cited for the "non-productivity" of social spending draw from market theories of value and wealth formation. From a market perspective, the critical element in assigning social value to a good or service, rests in the utility assigned by individuals (or collectivities of individuals) in the designation of preferences, and the exercise of choice. The market place is deemed to be a more authentic reflection of preference, since it is claimed that consumer choice is exercised directly through dollar votes without the mediation of collective institutions. State, or public expenditures,

are claimed to be less reliable since individual preferences are mediated through elected officials and civil servants.

As a sociological description of experienced realities in advanced industrial societies, market theories of consumer sovereignty are somewhat incomplete. Producers are reticent to place goods or services in the market place, and await the exercise of choice through dollar notes. There is massive intervention by producers in the market place to mediate consumer choices. Billions of dollars are invested in advertising, promotions, and packaging. It is questionable whether consumers really exercise choice, or are invited to respond to the choices which are placed before them. The exercise of choice would imply the ability to secure what is preferred, and not only respond to what is offered. Consumer sovereignty is quite limited in its ability to influence the content of market production, and thereby the content of choice. It has more often been necessary for consumers to step out of the marketplace, and through collective action, promote public legislation and regulation to secure the quality and range of choices sought.



In The Great Transformation, Polanyi identifies the curious anomaly of a significant growth in the scope of government regulation and activity in the 19th century, in a period when economic doctrines of "laissez-faire" (for minimum government intervention) prevailed. Regulation has been a necessary out-growth of the industrial market place. Consumers have been unwilling to have a direct and unmediated relationship with market producers. It is through a highly developed framework of protective activity by the public sector, that most individuals feel secure in their role as consumers. Without this framework of protective activity, large scale market production would not be possible. There are few individuals who would regularly consume food, use elevators, travel in airplanes, fill out drug prescriptions, clothe their infants, turn on electrical appliances, invest in stocks, place their savings in banks, and more recently drive cars and breathe the air around them, without the assumed assurances of government protection. It is collective action through the democratic process which provides the essential foundations for participation in the marketplace. The costs of public regulation to protect individuals are social costs which make the consumer role possible. From a market perspective, these forms of

public spending, because they are essential, must be seen as productive. The public sector confers credibility upon the theory of consumer sovereignty. Individual dollar votes, acting in the isolation of a crowd, have become increasingly less effective in securing accountability and choice.

O'Connor, in The Fiscal Crisis of the State, points to other inconsistencies in market theories of wealth formation. In advanced market cultures dependent upon high levels of consumption, there are substantial public subsidies given to producers and consumers alike. The modern state, in both Western and Eastern societies, socializes through public spending the costs of education, advanced training, research, health care - all essential elements to the process of technologically intensive production.<sup>2</sup> Through income transfer payments - welfare, old age security, unemployment insurance, mortgage guarantees - and other tax expenditures, consumer spending is supported. O'Connor contends that fiscal support

---

<sup>2</sup> Frederic L. Pryor, Public Expenditures in Communist and Capitalist Nations, George Allen and Unwin Ltd, London 1968.

of the marketplace - to producers and consumers - has come to outstrip available budgetary resources. Herein lies "the fiscal crisis of the state". It would be hard to characterize social investments in market production and consumption as inherently "non-productive".

One of the current limitations in market economies is the inability to choose between public and private goods. Utility theory stresses the importance of choice in ascertaining value, and hence identifying forms of "productive" activity. The application of a utility perspective to public spending reveals significant levels of individual satisfaction with the benefits received.

Table 3 reflects the high esteem with which Canadians view public goods such as medicare, garbage collection, fire protection, and police services. There is less consensus, but still significant approval levels, for the value of postal services and education. Municipal politicians who have sought to introduce curtailments in programs such as garbage collection, and dental services for children, have been quickly made aware that these are highly valued goods. At the time of the Special Program Review, Metro Council was arguing for a municipal

income tax so that it could continue to finance what Toronto residents (and citizens across Canada) deemed to be valuable programs.

TABLE 3

RATING VALUE OF PUBLIC SERVICES, CANADA, 1977 AND 1976

Public Service	G Good Value		Not Good Value		Can't Say	
	1977	1976	1977	1976	1977	1976
Medicare	88%	84%	7%	12%	4%	4%
Garbage Collection	84%	80%	8%	8%	7%	12%
Fire Protection	83%	82%	7%	8%	10%	10%
Police	79%	81%	15%	14%	7%	5%
Postal Service	61%	68%	36%	30%	4%	2%
Education	52%	47%	37%	42%	11%	11%

Source: Gallup Polls, Toronto Star; Oct. 22, 1977 and Oct. 23, 1976

Poll Question: "Let us think about some of the services provided by our governments, and paid by for you in a number of ways. Do you think you do, or do not get good value for ....."

PRIVATE SOCIAL SPENDING PATTERNS, 1974

TABLE 4(a)

(For Families of 2 or more persons in 14 Canadian Cities)

ENTRY LEGEND: A - % of Families Reporting Expenditures B - Average Expenditures of Reporting Families C - % of Average Expenditures to Average After-Tax Income

FAMILY INCOME GROUPS

Social Spending Category		Under 4,000	4,000 to 4,999	5,000 to 5,999	6,000 to 6,999	7,000 to 7,999	8,000 to 8,999	9,000 to 9,999	10,000 to 11,999	12,000 to 14,999	15,000 to 19,999	20,000 to 24,999	25,000 and Over	
Dentist Care	A	17.9%	31.3%	33.4%	42.1%	47.2%	46.0%	54.5%	56.0%	59.4%	67.8%	79.2%	79.1%	A
	B	105.0	119.5	87.4	89.5	98.7	100.4	82.9	135.2	132.7	165.8	181.7	249.7	B
	C	2.5%	2.5%	1.5%	1.4%	1.4%	1.2%	.9%	1.4%	1.2%	1.3%	1.2%	1.3%	C
Eye Care	A	20.1%	32.3%	30.7%	36.4%	30.7%	33.0%	24.9%	38.4%	34.5%	38.4%	48.3%	51.2%	A
	B	50.7	47.1	47.6	52.5	64.2	57.9	57.4	59.4	66.7	68.5	74.5	88.1	B
	C	1.2%	1.0%	.8%	.8%	.9%	.7%	.7%	.6%	.6%	.6%	.5%	.5%	C
Medicine and Drugs (Prescribed)	A	46.9%	51.3%	57.0%	62.0%	74.1%	72.1%	71.2%	67.7%	74.4%	75.1%	74.3%	70.9%	A
	B	64.2	86.9	87.7	83.1	67.2	72.5	73.6	63.7	64.2	64.1	66.4	69.0	B
	C	1.5%	1.8%	1.5%	1.3%	.9%	.9%	.8%	.7%	.6%	.5%	.5%	.4%	C
Child Care	A	7.2%	7.5%	7.2%	11.9%	17.0%	13.2%	17.6%	21.9%	19.9%	19.6%	22.6%	19.5%	A
	B	111.1	258.7	298.6	319.3	374.7	214.8	306.8	205.0	300.0	343.4	444.7	524.1	B
	C	2.6%	5.3%	5.2%	5.1%	5.2%	2.7%	3.5%	2.2%	2.8%	2.8%	3.0%	2.7%	C
Household Help	A	3.5%	4.3%	4.8%	3.8%	5.0%	2.5%	2.3%	4.8%	4.0%	5.9%	12.0%	31.4%	A
	B	60.0	44.2	81.3	71.1	40.0	120.0	47.8	162.5	305.0	350.9	208.3	552.2	B
	C	1.4%	.9%	1.4%	1.1%	.6%	1.5%	.6%	1.7%	2.9%	2.8%	1.4%	2.9%	C
Education (Fees, Books, Supplies)	A	18.3%	13.4%	24.5%	34.3%	37.7%	35.4%	31.0%	44.8%	48.0%	55.1%	62.5%	67.9%	A
	B	151.9	140.3	196.3	237.0	252.0	267.2	201.0	210.9	180.4	196.4	280.2	436.7	B
	C	3.6%	2.9%	3.4%	3.8%	3.5%	3.3%	2.3%	2.2%	1.7%	1.6%	1.9%	2.3%	C
Non-Government Retirement or Pension Funds	A	.0%	.7%	2.7%	7.7%	9.1%	14.9%	28.0%	22.1%	24.7%	37.1%	44.0%	49.5%	A
	B	.0	71.4	70.4	163.6	253.9	309.4	332.5	408.6	482.6	661.7	974.6	1739.2	B
	C	.0%	1.5%	1.2%	2.6%	3.5%	3.8%	3.8%	4.3%	4.5%	5.3%	6.6%	9.1%	C



SOCIAL CONTRIBUTION PATTERNS, 1974  
(For Families of 2 or more persons in 14 Canadian Cities)

TABLE 4(b)

ENTRY LEGEND: A - % of Families Reporting Expenditures B - Average Expenditure of Reporting Families C - % of Average Expenditures To Average After Tax Income

		Under 4,000	4,000 to 4,999	5,000 to 5,999	6,000 to 6,999	7,000 to 7,999	8,000 to 8,999	9,000 to 9,999	10,000 to 11,999	12,000 to 14,999	15,000 to 19,999	20,000 to 24,999	25,000 and Over	
Charitable Contributions (Non-Religious)	A	20.1%	32.8%	30.5%	32.1%	23.7%	37.9%	45.4%	44.7%	50.4%	56.4%	59.3%	66.9%	A
	B	12.9	17.7	16.7	21.8	21.1	22.4	22.5	23.3	32.3	39.7	60.0	121.7	B
	C	.3%	.4%	.3%	.4%	.3%	.3%	.3%	.3%	.3%	.3%	.4%	.6%	C
Personal Income Taxes	A	24.5%	38.5%	69.7%	88.5%	97.4%	98.4%	99.8%	99.8%	100.0%	100.0%	100.0%	99.6%	A
	B	314.7	190.7	270.4	458.1	660.9	875.0	1167.2	1493.1	2065.5	2956.4	4277.5	8064.6	B
	C	7.2%	3.7%	4.4%	6.6%	8.0%	9.2%	11.0%	12.9%	15.2%	18.0%	20.8%	27.1%	C

Source: Urban Family Expenditures, 1974 (Statistics Canada)

Table 4(a) applies a utility perspective to private spending patterns. People affirm through dollar sovereignty the productivity of social spending. The more income they have, the more frequently they seek out social benefits. As income goes up, more is spent on dental care, eye care, child care, household help, education, and private pensions. Similar levels are spent on drugs, but these expenditures represent a lower proportion of after-tax income for the affluent. In the market place, there can be limitless production and distribution of social benefits. Social goods and services are no less "productive" than any other set of goods and services which are privately produced and consumed. If people want and value social goods, then why does social spending become "non-productive" when social benefits are collectively produced and financed. Is there any empirical evidence to indicate more efficiency, less waste, and less abuse when social benefits are privately organized and secured through the price system? Or is the issue of "non-productivity" an elegant diversion from a more fundamental resistance to the principle of redistribution. Public financed social spending creates equality of access to social benefits. Letting the market (or the price system) decide who will receive social benefits, and how much, is a basic

prescription for perpetuating social exclusion and inequality. It denies individuals and their dependents basic access to the social necessities of a civilized society. The resistance to sharing and public decency is camouflaged by the pieties of civic virtue.

Some social spending critics argue that a return to voluntary giving is a more appropriate way to meet collective responsibilities. There is no doubt that the voluntary sector has been an important source of service innovation and social commitment in the evolution of civilized community life. The historic role of the voluntary sector has been to identify need, demonstrate appropriate and effective responses, and then persuade the public sector to make voluntary service benefits available to those in need. The voluntary sector has never been capable of creating general access to needed services and programs. It must be remembered that voluntary giving includes the right not to contribute. Public spending provides a framework of fairness, in which it is more difficult to evade responsibility.

Table 4(b) identifies the relationship between voluntary giving and public revenue patterns. Excluding the \$25,000 and over group, the proportion of voluntary giving after taxes does not reflect ability to pay. It is only through public revenue measures that a fair share of social responsibility is assumed by all.

A central theoretical contention raised against social spending is the allegation that it does not contribute to wealth formation. Hence it is "non-productive". In some measure, this reflects a view that "wealth" is created through the transformation of natural resources into saleable commodities. Responding to this contention draws one into historical and theoretical analysis.

What emerges upon preliminary review are an alternative set of understandings. Social investments have generally accompanied and been inseparable from the process of industrial development. Tracing the intricate relationships between these two streams of development remains an unexplored area of historical scholarship. One might speculate on how and why the separation in critical understanding developed. In

part it reflects differences in origins, forms of social organization, and competing struggles for legitimation and scarce resources.

Social investments transfer the principles of collective survival from family and kinship structures into the public domain. Ideologically they promote inclusion and the affirmation of interdependence. The imagery conveyed is that of common dwellingness and continuity, or what may be referred to as a "public household" perspective. Market theory stresses the solitary individual, condemned to confront natural elements and instincts, for whom survival is assured through domination and the mediation of a coercive state. Public household and market images may reflect differences in established sex functions. Thus the historical pre-eminence of market theory and images as incomplete explanations of how social survival and wealth formation have historically occurred.

For a social planner to encounter Adam Smith is to discover that the "Wealth of Nations" is not only a treatise on the principles of accumulation (i.e. wealth),

but also a prescription on the development of the public household, (i.e. nation). There is no suggestion that the economic domain enjoys a unique moral or political status to the nation itself. The purposes of wealth are to civilize and humanize the national community. Admittedly productive labour is associated with the process of material production, but the principles underlying capital productivity are important to note: "the labour of the manufacturer fixes and realises itself in some particular subject or vendible commodity, which lasts for some time at least after the labour is past. It is, as it were, a certain quantity of labour stocked and stored up to be employed, if necessary, upon some other occasion. That subject, or what is the same thing, the price of that subject, can afterwards, if necessary, put into motion a quantity of labour equal to that which had originally produced it. The labour of the menial servant, on the contrary, does not fix or realise itself in any particular subject or vendible commodity. His services generally perish in the very instance of their performance, and seldom leave any trace or value behind then for which an equal quantity of service could afterwards be procured".<sup>3</sup> (emphasis added)

The key element in the concept of capital productivity is developmental - reproductive capacity over time. It is the infusion into the society of capacity which can preserve and manifest itself with some measure of consistency independent of the conditions from which it initially arose. That this capacity was almost exclusively associated with manufacturing, machines, and industrial activity is not surprising. In an era when population growth, diminishing food supplies, widespread physical dislocation and deterioration were prevalent, the hope of transformation and survival rested in disciplining human activity to master the material elements. However, the principles of productivity which Smith attributes to manufacturing can also be applied to parenting.

For Smith, social development work and corresponding forms of public spending are not the paradigm for non-productivity. They are related to the process of

---

<sup>3</sup> Adam Smith "The Wealth of Nations", Volumes One and Two" J. M. Dent & Sons Ltd., London, 1910, Vol. 1, p. 295



formation and are assigned an appropriate priority in the evolution of the nation.<sup>4</sup> Smith argues for a universal elementary system of education at a modest fee "that even a common labourer may afford it" (p. 266-7), with public financing through general revenue to bear the costs. The purposes of education are to civilize people into productive leisure, promote societal stability, and upgrade labour force skill.

The state sector is assigned a range of public functions to enable capital accumulation - developing an infrastructure of banking, insurance, canals, roadways, water supply which "are of great and general utility, while at the same time they frequently require a greater expense than suits the fortunes of private people" (p. 244). The role of the state in creating the conditions necessary for modern industrial production is evident. As a matter of historical interest, general revenue is advocated by Smith as the means of payment for public goods which are beneficial to the whole society, with "all the different members contributing, as nearly as possible, in proportion to their respective abilities". (emphasis added - p. 297)

The paradigm of non-productivity for Smith, clearly evident throughout "Wealth of Nations", is the squandering of human labour to meet frivolous consumption needs. Service work in the form of domestic servitude (i.e. "menial servant") falls into this category. It is the issue of what are now called "luxury goods" which is at the center of Smith's view of non-productivity, not social development work or public sector activity.

The issue of luxury goods remains central to the critical issues of allocation today. Luxury goods may be defined (Menger) as "... the application of more means than are necessary for achieving a purpose."<sup>5</sup> Luxury goods steer productive resources away from the generation of benefits more closely associated with the necessities of life. If there is a conflict today over what is "productive", it is not between industrial

---

<sup>4</sup> Smith, op. cit. Vol. 2 "The Expenses of the Sovereign" p. 182-298.

<sup>5</sup> As quoted in E. Kander "A History of Marginal Utility Theory" Princeton, 1965, p. 63.

development and social spending, but over the forms of wealth to be created and the equitable distribution of entitlements.

Advanced market societies are characterized by an intensity of luxury goods and services which compete for scarce societal resources. The luxury sector includes the significant growth of non-durable and marginal consumption items (fashion, cosmetics, entertainment, professional sports, stimulants, recreation equipment, etc.) and the massive overheads of market promotion (management inducements, advertising, packaging). It has prompted Lewis Lapham of Harpers to note recently that the "diversion" sector in America now exceeds the "national defense" sector in its appropriation of societal resources. The scale of the diversion sector is an important commentary on the means required in an advanced market culture to promote social stability within the nation. It represents "domestic defense" spending within the public household.

The fragility of the "domestic defense" strategy is best reflected in the significant growth of private and public security systems during the last two decades. In North America, the number of individuals employed in private

forces has come to exceed the recorded size of public security services. The sense of "community" in the public household is replaced by a siege or fortress mentality, with guards (armed in the U.S.) in plazas, schools, office buildings, apartment complexes, hospitals, specialty stores, museums, mass entertainment events, etc. Farnell and Shearing noted in a recent review that!

"....private security has become as obvious a part of the daily lives of most Canadians as the public police. Canadians today encounter private security personnel at almost every turn:....The private security industry has grown to such an extent that, today, the role played by the industry in the area of law enforcement has an effect on the lives and liberty of Canadian citizens second only to that played by the public police." <sup>6</sup>

---

<sup>6</sup> M. B. Farnell, C. D. Shearing "Private Security: An Examination of Canadian statistics, 1961 - 1971". Centre of Criminology, University of Toronto, April 1977. p. 118, 119.

The costs of social disintegration are significant to the community as a whole. A continued commitment to diversion over social development in the allocation of public resources will inevitably expand the need for coercive measures. Social spending is an investment in non-coercive approaches to securing social stability and integration. Increased reliance on the market place to determine the kind of wealth we will produce, and how entitlement will be distributed, can only lead to social exclusion for increasing numbers of families and individuals. Some groups will have both diversion and the benefits of social spending, some groups will have to make the tough choices, and other groups will end up with neither. The fortress mentality will grow as the secure demand more protection from the anger and spill-overs of the socially excluded.

Modern capital theory no longer questions the productivity of social spending.<sup>7</sup> Reproductive capacity over time is increasingly seen as a function of specialized technical knowledge, labour force stability, and forms of social organization and management. These capacities emerge through efficient and comprehensive social investments. Social spending is understood to be one of the first con-

ditions necessary for accumulation. The modern corporation has become a repository of internally provided social programs for its employees - continuing education, human relations management, family and addiction counselling, temporary forms of collective living, health care, fitness, athletics, entertainment, cultural enrichment, community service promotion, retirement and disability protection, interest free loans, para-transit services. A high priority is assigned to the social stability and sense of integration within the modern corporate household. Gone are the days

---

<sup>7</sup> See: D. Dewey "Modern Capital Theory", Columbia University Press, New York, 1965.

OECD "Towards Full Employment & Price Stability", June 1977.

E. Ginzberg "The Pluralistic Economy", McGraw Hill, New York 1965 G. S. Becker "Human Capital" (second edition), Columbia University press, 1975.

E. L. Trist "Aspects of the Transition to Post-Industrialism". Plannar Press, New York, 1973.

E. Leobb "Humanomics", Random House, New York, 1976.

when internal control was primarily pursued through coercive frameworks of regulation and redistribution. Within its domestic sphere the modern corporation has discovered the need for sound economic and social planning.

When one compares the state of Canada's economic competitiveness with more successful OECD nations (Germany, Japan, Denmark), some of the critical differences are within the social development sphere. Canadian deficiencies are related to the lack of a specialized technical base (research /development, skilled workers), unstable social relations (a fragmented and adversarial tradition of collective bargaining), inefficient economic organization and management (the branch plant syndrome). Each of these areas requires some measure of public sector leadership and social investments if Canada's economic future is to be secured.

The critical choices which Canadians face are not between industrial development and social spending. There is need for both sets of activities as part of an integrated strategy of economic and social planning. Industrial development strategies to restore competi-

tiveness to the Canadian economy, and public social development spending at real growth levels in the economy, are not incompatible. This requires more efficient management and deployment of scarce capital resources in pursuit of Canadian objectives. Well managed industrial strategies can yield employment benefits in a middle term range. Public social spending through service development is the most cost efficient method for immediate job creation.<sup>8</sup> It is clearly more efficient than indiscriminate priming, as recent evidence indicates.

Canadians value publicly provided services and programs, particularly those offered by municipal governments. The quality of public services in Canada are an inherent part of our national identity as North Americans. Within an integrated framework of public

---

<sup>8</sup> Organization for Economic Cooperation and Development (OECD), "A Medium Term Strategy for Employment and Manpower Policies", Paris, 1978, p. 59-78.



planning, municipal governments should acquire increased revenue resources for the orderly expansion of employment opportunities in areas such as public transit, non-profit/cooperative housing, technical and special education, family support and child welfare, services to the elderly, road and grade improvements, expanded public health care (i.e. dental services).

In conclusion, market claims that public social spending is "non-productive" and contributes to economic decline is without substance in fact and theory. It represents the infusion of a political ideology over distribution and control into public policy debate. It seeks to determine the forms of future wealth, perpetuate inequality and exclusion, and more seriously, discredit the legitimacy of collective action through political democracy. (The shape of this emerging conflict between market organization and political democracy is discussed by Daniel Bell in The Cultural Contradictions of Capitalism)

There is a continuing need for an active and creative market sector in the economic future of Canada. Of fundamental concern, however, is the reticence of the market sector

to accept the need for a balanced pattern of national development in which economic and social objectives are afforded the complementary status that is required. In a period of restraint and readjustment, effective public leadership is required to formulate and design a balanced program of economic and social development for Canada. This cannot occur if the market sector refuses to accept the need for limits on its spheres of activity, and continues to insist on a pre-eminence in relation to social spending and the public sector. The use of the tax welfare system as a substitute for economic planning is a luxury which Canadians can no longer afford. It reduces our standard of living, limits the prospects for job creation, denies us the capacity to undertake urgently needed social investments, and eventually leads to the fortress community.

